MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BME1014 – INTRODUCTORY MICROECONOMICS
(All sections / Groups)

28 FEBRUARY 2020
3.00 p.m. – 5.00 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FOUR (4)** pages with **FOUR (4)** questions only.

2. Attempt **ALL** questions. The marks distribution are given in the parentheses.

3. Please write your answers in the Answer Booklet provided.

There are FOUR questions in this paper. Candidates MUST answer ALL questions.

<u>**Question 1**</u>

(a)   Zhang is a farmer who produces two crops, namely apple and orange. Answer the following questions. Use a diagram in your answer for part (ii), (iii) and (iv).

      i.   Define the production possibilities frontier (PPF) and what does it reveal?

                                                                                (4 marks)

      ii.   Explain the effect of insect diseases would have on Zhang's production possibilities frontier.   (2 marks)

      iii.   Assume genetic modification which makes apples more resistant to insects helps Zhang's apple output to double. Show this effect in the initial production possibilities frontier.   (2 marks)

      iv.   Suppose genetic modification which makes all crops more resistant to disease helps Zhangt's output to double. Show this effect in the initial production possibilities frontier.   (2 marks)

(b)   Explain which of the following events will cause the supply or the demand curve of Old Town Nasi Lemak to shift or move along its supply or demand curve.

      i.   The price of McDonald Nasi Lemak declines.   (3 marks)

      ii.   The price of chicken increases in the global market in Malaysia.   (3 marks)

      iii.   Old Town replaces the old chicken fryer with a faster and more efficient fryer machines.   (3 marks)

      iv.   The Malaysian's income increases due to rapid economic growth.

                                                                              (3 marks)

      v.   New government reports revealed that there is a strong connection between fry food and cancer.   (3 marks)

[Total: 25 marks]

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Question 2

(a) A company decided to increase the price of their Chai Tea and asked you as an expert to analyses the effect associated with a proposed price change. You conducted a survey and found that if the price of a pack of Chai Tea sold by the firm increases from RM6 to RM8, the quantity demanded will decrease from 500 units to 420 units a month.

    i.   Calculate the price elasticity of demand   (8 marks)

    ii.   Should the company raise the price? Explain the economic basis for this recommendation to the Manager.   (7 marks)

(b)   Use the data in **Table 1** to explain the economic effects of a price ceiling at RM4, at RM3, and at RM2.   (10 marks)

Table 1

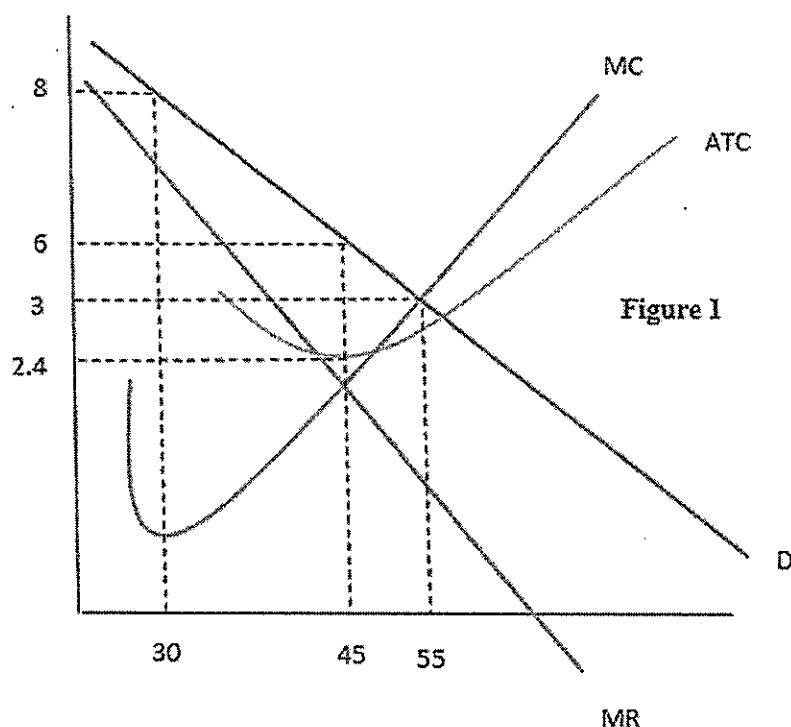| Price (RM)	Quantity demanded	Quantity supplied
2.00	6000	15000
3.00	7000	13000
4.00	8000	11000
5.00	9000	9000

Question 3

(a)   **Table 2** shows Salim's utility from consuming Nasi Lemak and Teh Tarik. Suppose that Salim has RM7 per week to spend on Nasi Lemak and Teh Tarik, the price of Nasi Lemak is RM2 and the price of Teh Tarik is RM1.

Table 2

Number of Nasi Lemak Dishes	Total utility from Nasi Lemak	Number of Teh Tarik cups	Total utility from Teh Tarik
1	30	1	40
2	55	2	75
3	75	3	101
4	90	4	119
5	100	5	134
6	105	6	141

Continued...

    i.   Show Salim optimal combination of Nasi Lemak and Teh Tarik taking in to account his budget constrain   (7 marks)

    ii.   Show Salim optimal combination of Nasi Lemak and the TehTarik assuming that there is no budget constrain.   (3 marks)

(b)   Assume that Peter opens a restaurant that sells Italian pizza in his hometown. Use **Figure 1** that show the demand and cost of Peter's Italian pizza to answer the following questions:

    i.   Based on **Figure 1**, is this a perfectly competitive market or a monopolistic competitive market? Explain.   (3 marks)

    ii.   What is the optimal number pizzas Peter should sell per day, and at what price he should charge? Explain.   (6 marks)

    iii.   Based on part (b)(ii), how much profits/loss is Peter making by selling that amount of pizzas? Explain.   (6 marks)

Figure 1

[Total: 25 marks]

Continued...

Question 4

(a) There are several types of barriers that give rise to monopoly power. Name any **TWO** types of barriers to entry that give rise to monopoly power. Give an example of each.
(9 marks)

(b) Suppose Samsung and Apple compete aggressively in the Malaysian market. Both companies are thinking whether they lounge the new bent screen phone during the New Year or not. Answer the following questions:

    i.   Construct a payoffs matrix using the following scenarios:

- If both companies lounge the new bent screen phone both will earn RM600 million. (1 mark)
- If both companies decide not to lounge the new bent screen phone both will earn RM400 million. (1 mark)
- If Samsung lounges the new phone and Apple does not, Samsung will earn RM900 million and Apple will earn RM200 million. (1 mark)
- If Apple lounges the new phone and Samsung does not, Apple will earn RM900 million and Apple will earn RM200 million. (1 mark)

    ii.   If Apple wants to maximize their profit, will the company lounge the new phone? Explain. (4 marks)

    iii.   If Samsung wants to maximize their profit, will the company lounge the new phone? Explain. (4 marks)

    iv.   What is the Nash equilibrium of this game? (4 marks)

[Total: 25 marks]

End of Paper